ANZ RESEARCH

NEW ZEALAND ECONOMICS
MARKET FOCUS

29 February 2016

INSIDE

Economic Overview 2
Interest Rate Strategy 7
Currency Strategy 9
Data Event Calendar 11
Local Data Watch 13
Key Forecasts 14

NZ ECONOMICS TEAM

Cameron Bagrie
Chief Economist
Telephone: +64 4 802 2212
E-mail: Cameron.Bagrie@anz.com
Twitter @ANZ_cambagrie

Philip Borkin
Senior Economist
Telephone: +64 9 357 4065
Email: Philip.Borkin@anz.com

David Croy
Senior Rates Strategist
Telephone: +64 4 576 1022
E-mail: David.Croy@anz.com

Mark Smith
Senior Economist
Telephone: +64 9 357 4096
E-mail: Mark.Smith2@anz.com

Sam Tuck
Senior FX Strategist
Telephone: +64 9 357 4086
E-mail: Sam.Tuck@anz.com

Kyle Uerata
Economist
Telephone: +64 4 802 2357
E-mail: kyle.uerata@anz.com

Con Williams
Rural Economist
Telephone: +64 4 802 2361
E-mail: Con.Williams@anz.com

Sharon Zöllner
Senior Economist
Telephone: +64 9 357 4094
E-mail: Sharon.Zollner@anz.com

MORE LIKELY THAN NOT

ECONOMIC OVERVIEW

Further reductions in the OCR are now more likely than not. We have pencilled in cuts for June and September. While there are several contributing factors (stubbornly high NZD, lower inflation expectations, receding export prices, dairy payout prospects) three themes have been enough to tip us into the rate cut camp: 1) a moderation in economic momentum now looks to be around the corner at a time when inflation is already low; 2) global unease – China has problems and they will be exported; and 3) a structural shift in funding costs, which, if not compensated for by monetary policy, will accentuate decelerating economic momentum. We are still constructive on the outlook for the economy but part of this is contingent on a relaxation of financial conditions via the NZD and monetary policy.

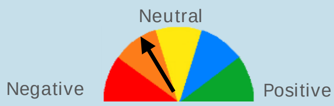
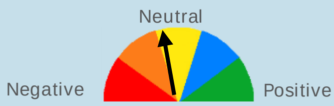
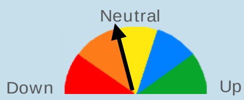
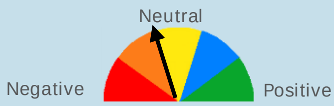
INTEREST RATE STRATEGY

Despite considerable falls in front-end yields already, there is scope for short-term rates to rally further and for the curve to "bull steepen". We still expect US long-term interest rates to gradually drift higher, biasing local term rates higher too. However, the prospect of more RBNZ easing (we now expect more cuts than are currently priced in) points to a narrowing in geographic spreads. This will slow the rise in local long-end rates vis-à-vis the US. Swap spreads are likely to continue narrowing as credit markets re-price higher in the wake of new bank bond issuance at much wider spreads than those prevailing last year.

CURRENCY STRATEGY

We are turning more outright negative on the NZD. In short, its resilience in the face of growing global risks is on borrowed time now the OCR is likely headed lower. Weakening export prices and an expected rolling in the economic good-news story are also strong sell signals, particularly when viewed in combination with the current NZD level. Moreover, Fed rate hikes expectations are low. Amidst still-solid jobs and inflation data, USD rebound risks are on the table.

THE ANZ HEATMAP

Variable	View	Comment	Risk profile (change to view)
GDP	2.3% y/y for 2016 Q4	While growth momentum looks reasonable now, tighter financial conditions suggest a more moderate backdrop over 2H 2016.	
Unemployment rate	5.4% for 2016 Q4	The demand for labour has recovered, and labour supply is cooling from strong rates. Wage inflation contained.	
OCR	2.00% by Dec 2016	A further 50bps of cuts this year. Growth is set to moderate, credit conditions have deteriorated, and global risks abound.	
CPI	0.8% y/y for 2016 Q4	Lower petrol prices and further ACC levy cuts from July expected to keep headline inflation low this year. Core inflation measures to remain low.	

ECONOMIC OVERVIEW

SUMMARY

Further reductions in the OCR are now more likely than not. We have pencilled in cuts for June and September. While there are several contributing factors (stubbornly high NZD, lower inflation expectations, receding export prices, dairy payout prospects) three themes have been enough to tip us into the rate cut camp: 1) a moderation in economic momentum now looks to be around the corner at a time when inflation is already low; 2) global unease – China has problems and they will be exported; and 3) a structural shift in funding costs which, if not compensated for by monetary policy, will accentuate decelerating economic momentum. We are still constructive on the outlook for the economy but part of this is contingent on a relaxation of financial conditions via the NZD and monetary policy.

FORTHCOMING EVENTS

RBNZ Credit Aggregates – January (3:00pm, Monday, 29 February). Credit growth is still running well ahead of income growth (meaning people are leveraging off an already leveraged balance sheet), but we suspect we are close to the peak.

Overseas Trade Indexes – Q4 (10:45am, Tuesday, 1 March). While falling oil prices should provide some offset, weaker export prices are expected to see the goods terms of trade fall around 3%.

QV House Prices – Feb (12:00pm, Tuesday, 1 March). Policy changes and affordability constraints have cooled the Auckland market, and with it the nationwide figures.

GlobalDairyTrade Auction (early am, Wednesday, 2 March). Some improvement in averaging winning prices (less than 5%) is expected, driven by a seasonal fall in auction volumes and bargain hunting.

Building Work Put in Place – Q4 (10:45am, Thursday, 3 March). Gains are expected for both residential and non-residential work. We expect a 5% quarterly gain in overall building volumes.

ANZ Commodity Price Index – Feb (1:00pm, Thursday, 3 March).

WHAT'S THE VIEW?

Further moves lower in the OCR are now more likely than not. We expect 25bps cuts in both June and September. This will take the OCR to an all-time low of 2.0%.

That said, if the RBNZ's core inflation measure (which it has put us on notice to watch) stabilises in Q1 (after rising to 1.6%), then an April (rather than June) cut will be odds on. There will be no point waiting until June. Technically we place an equal probability on either an April or June cut at present. Our Monthly Inflation Gauge will help shape our view on the risk profile surrounding the Q1 CPI.

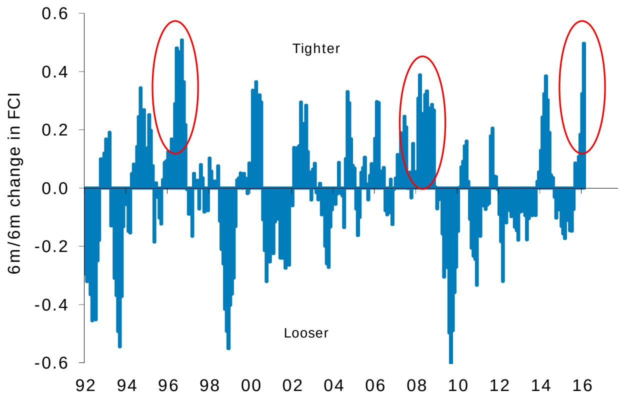
Several factors are influential in our thinking. They include a NZD that is too high, receding export prices (and not just dairy), weakening inflation expectations, and poor prospects for the 2015/16 dairy payout. **However, these are not in fact the elements that have tipped us over the line.**

Up until now, there have been material offsets to the above drags on inflation and activity, which were enough to keep us in the no-change camp. The economy has been performing well, as has the labour market. Capacity constraints are apparent in some sectors; capacity utilisation is high. Core inflation – according to the RBNZ's preferred measure – has been rising. Outside of dairying, exporters are faring okay. Tourism is booming. The tone of the (lagging) domestic data, as well as anecdotes on the ground, remains consistent with a domestic economy that has reasonable momentum right here and now. Households are showing re-leveraging behaviour off an already leveraged balance sheet. Regional house prices are rising strongly. Such forces are strong considerations still.

So what has tipped us over the edge? A number of factors have (collectively) become too difficult to ignore.

- **Financial conditions have tightened a lot, and rapidly.** House prices, credit spreads and the NZD are all contributing. It is now looking like 2% GDP growth (i.e. below trend) could again be on offer (and that's assuming no further tightening). **The speed of the tightening has been particularly notable.** The last time we saw a tightening this rapid over six months, the Asian crisis was unfolding. The GFC tightening was more aggressive overall, but not as rapid in the first instance.

FIGURE 1. SIX-MONTH CHANGE IN FINANCIAL CONDITIONS

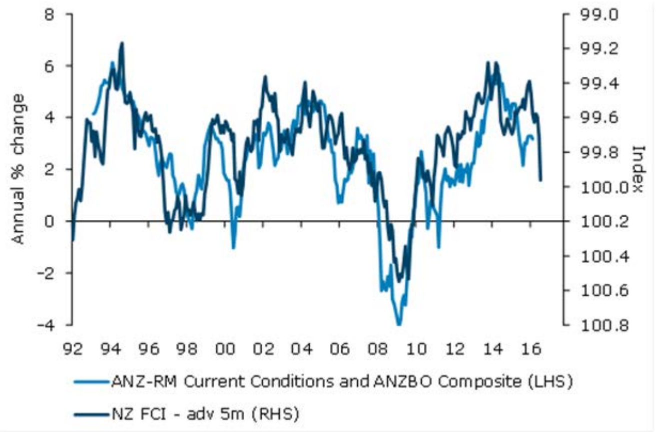


Source: ANZ, Bloomberg

ECONOMIC OVERVIEW

- **Leading indicators are set to moderate further.** There is a strong relationship between financial conditions as captured by our Financial Conditions Index (FCI) and GDP growth, but also between the FCI and lead indicators such as our own confidence composite measure. We've already seen a gentle rolling in business confidence within our *Business Outlook* today, although levels remain respectable. We never want to be in the game of forecasting confidence, but in this environment more "rolling" looks on offer.

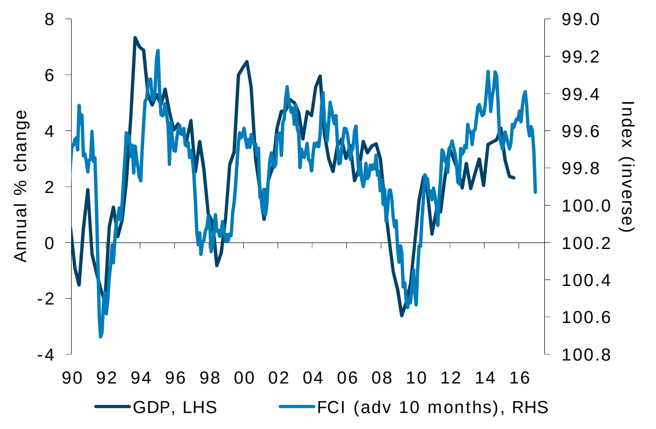
FIGURE 2. CONFIDENCE AND FINANCIAL CONDITIONS



Source: ANZ, Bloomberg, Statistics NZ

- **As such, we have less faith in the domestic economic story heading into the back half of the year.** Growth looks set to fall below trend. And importantly, the RBNZ needs growth to be at least at trend to drive medium-term inflation pressures higher. We doubt we will see it. To emphasise, we are not talking a downturn, just a more moderate rate of growth, closer to 2% than 3%.

FIGURE 3. GDP AND FINANCIAL CONDITIONS



Source: ANZ, Bloomberg, Statistics NZ

- **The world has huge problems to manage at present.** Price action is poor. China is front and centre, and their economic problems will be exported. Moreover, **it would be heroic to assume broader global issues will just go away.** While the latest G20 meeting showed officials are aware of the challenges and are promising steps to ensure the global economy remains on an even keel (stating that "monetary policy alone cannot lead to balanced growth"), one must view such promises with a healthy dose of scepticism. When all is said and done, we continue to feel that self-interest will dominate group-interest until it's too late.

- **The cost of credit has gone up.** Credit default swaps for large Australian corporates – a proxy for risk aversion – have risen about 30bps since the start of the year and are around 70bps higher than this time last year. And while they remain well below GFC peaks, they are sitting at around their highest level in three years. Credit default spreads for the major Australian banks more specifically have widened by about 50bps since the start of the year and signal a more difficult funding environment. Global swap spreads have collapsed. And Australian FRA-OIS spreads (a proxy for short-term bank funding spreads) have widened. Of course, we've seen market unease before, which has subsequently settled. What is unnerving about the current episode is that a) the global growth backdrop is more questionable, especially for China, and b) there looks to be a structural – and thus persistent – element to the increase. One factor influencing spreads is diminished liquidity courtesy of increasing regulation. Borrowers must eventually pay the cost. *[A more detailed description of developments across funding markets is contained in our upcoming Property Focus].*

The last factor above is significant, but also far from simple; there is an array of issues to consider and obviously everyone remembers the GFC. We note:

- **New Zealand is now less exposed to offshore funding markets (particularly at a short-term horizon) than previously.** There is more reliance on resident domestic funding. Retail bank funding has increased from around 60% of total funding a decade ago to above 70% of total system funding now. The share of non-resident funding has fallen from around 37% a decade ago (and 40% at the time of the GFC) to around 28% now. The maturity of funding has lengthened.

- **This reduced exposure mitigates the need for banks to immediately pass through increased global funding costs (i.e. the rising marginal cost of bank funding) compared with the not-too-distant past.** However, the longer the period

ECONOMIC OVERVIEW

for which banks' marginal cost of funding stays elevated, the more it will lift banks' average cost of funding. There will come a point where the pressure will quickly flow into higher new borrowing rates for customers.

- **The key is the extent to which banks can obtain funding from other sources, and whether greater competition for non-wholesale funding will have an impact on costs of funding from these sources too.** Greater competition for retail funding, for example, will force deposit rates up. Given the greater reliance on this form of funding, higher retail funding costs will have a correspondingly more significant impact on overall funding costs and hence borrowing rates offered by banks.
- With about 70% of all funding being at terms shorter than 90 days (including at-call deposits), an increase in both wholesale and retail funding costs is likely to filter though into overall funding costs reasonably quickly. **The exact timing of when this will occur is uncertain, but there have been a few tell-tale signs.** The recent scaling down of cash-back offers, gifts and fee waivers for mortgage lending is a sign something is up. We are keeping close tabs on retail deposit rates for signs of movement. When these move up independent of moves (rises) in wholesale interest rates, it signifies greater competition for funding from this source. Eventually carded mortgage interest rates will follow.
- **Meanwhile, the impact of previous monetary policy easing is still flowing through.** The effective mortgage rate fell by around 60bps over 2015 and a further 20bps of easing is likely out to the middle of this year. This dilutes pressure from higher funding costs on borrowing rates in the near term.
- **We see recent credit market moves thus far as equivalent to perhaps 25bps of OCR hikes,** but this assumes that such pressures will be persistent and flow through into retail (as well as wholesale) funding markets. While no one is sure how long the recent pressures will be sustained (we suspect they will be around for a while yet, given the global scene), **the extent of movement needs to be respected.** And the longer markets are swinging to the investor side of the ledger, the greater the impact on banks' average (as opposed to the marginal) cost of funds, piling up the pressure to pass it on.
- **Higher funding cost pressures are a strong argument for the RBNZ needing to cut the OCR as an offset. However, monetary policy has a number of balls the air,** such as inflation, financial stability risks, the NZD, and re-leveraging style behaviour. **So by itself, higher funding costs are only a partial argument for a monetary policy response.**

So where does that all leave us? **Our assessment at present is simply that the slew of risks and developments has now shifted sufficiently for OCR cuts to be more likely than not.**

We are still constructive on the outlook for the New Zealand economy, but part of this is contingent on an appropriate relaxation in financial conditions via both the NZD and OCR settings over 2016.

Positive forces in the form of net migration gains, a booming tourism sector, and the strong construction sector pipeline **should also continue to support the domestic activity picture**. Moreover, the fact the economy is growing to begin with is important. It is easier to navigate challenges when the economy is moving forward.

However, a growth backdrop that is even only modestly below trend is a problem for a central bank when inflation is already extremely low and inflation expectations are receding. The RBNZ needs to be alert to signs of moderation in growth to below-trend rates. We think that is coming. And with that, a lower OCR becomes more likely than not.

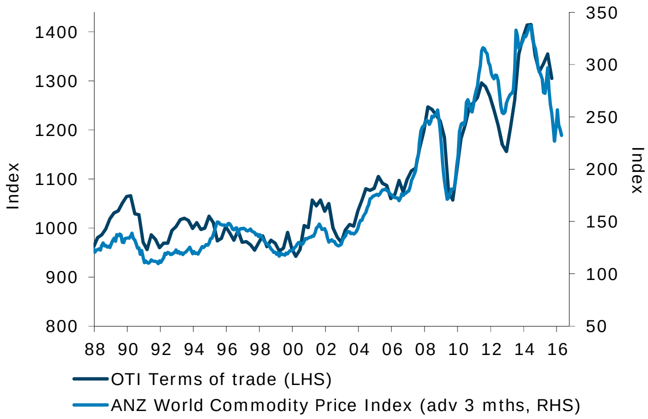
Moving onto the remaining domestic events this week, credit growth data later today should still be strong, although we are expecting a few more hints of moderation. At 7.0% y/y, total private sector credit growth continues to run well ahead of growth in nominal GDP, and has been relatively broad-based, with agriculture, business and housing lending all growing around this pace. For some (agriculture), this growth relates to increased working capital requirements on the back of cash-flow strains. That does not look set to change any time soon. However, with some signs of moderation in housing market activity over recent months (at least in Auckland), we are expecting some cooling in the pace of lending growth to households. There are tentative signs that this is occurring already, with 3-month annualised growth in household claims easing to 7.6% in December, from 8% in September.

Overseas Trade Index figures for Q4 are expected to show roughly a 3% fall in the goods terms of trade. Despite global dairy prices being more than 50% below their highs, New Zealand's terms of trade are actually only 8% below the June 2014 peak. This reflects the offsetting benefit of sharply lower oil

ECONOMIC OVERVIEW

prices, but also timing issues regarding when these weaker dairy prices actually flow through into New Zealand's official trade figures. Considering the falls in New Zealand's wider commodity basket (and we get another update this week when our ANZ Commodity Price Index for February is released), and notwithstanding ongoing oil price weakness, we feel that ongoing falls in the terms of trade are in the pipeline. In fact, we are assuming a further 20% fall in the terms of trade over 2016 alone.

FIGURE 4. COMMODITY PRICES VS TERMS OF TRADE

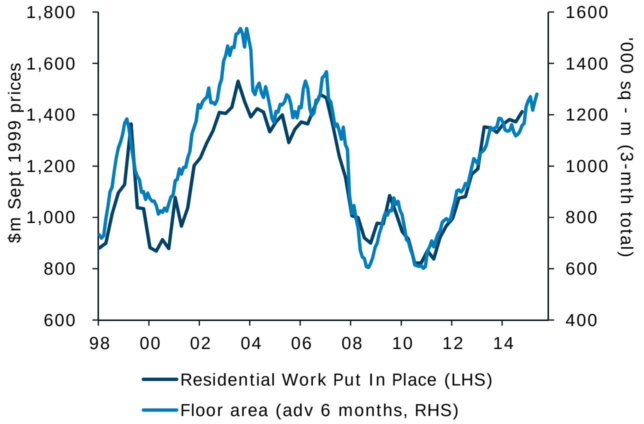


Source: ANZ, Statistics NZ

Associated trade volume figures should show a small lift in export volumes. Our models, based on monthly merchandise figures, point to a circa 1% q/q gain, with contributions from forestry, meat and fruit export volumes. There is always uncertainty about how import volumes have done given less partial information, but we suspect a 1% lift in exports may be enough to see net goods exports make a positive contribution to Q4 GDP growth. From a broader perspective, we certainly feel overall net exports will make a positive contribution, given another solid lift in services exports.

The volume of building work put in place is expected to record a solid lift in Q4. We have pencilled in a 4½% quarterly gain. With the exception of residential building activity in Christchurch – which does look to be past its rebuild peak – indicators for the construction sector are strong, supported by anecdotes from most regions of the country. Both dwelling and non-residential building consents trended higher over the latter part of last year (particularly non-residential) and we estimate seasonally adjusted cement production surged 6.1% q/q in Q4. We are looking for a 4% quarterly gain in residential building work and a close to 6% gain in non-residential work, although there is more uncertainly over the latter, given the lumpiness of projects.

FIGURE 5. FLOOR AREA OF BUILDING CONSENTS



Source: ANZ, Statistics NZ

Dairy prices appear to have established a bottom and we expect some improvement at this week's GDT auction, driven by a seasonal fall in auction volumes and bargain hunting. Price direction is likely to be mixed for the different products, however. NZX futures are pointing to an approximate 10% lift for WMP, but a small fall (1-2%) for SMP, for example.

The difference in product performance between the two powders is due to several factors:

1. New Zealand's seasonal volumes of WMP are on the decline and European SMP volumes are still rising. New Zealand is the largest supplier of traded WMP and Europe of SMP.
2. The market had been anticipating higher WMP GDT volumes following an improvement in New Zealand pasture conditions and production outlook. However, Fonterra recently sold a large quantity of WMP in the Algerian Government tender, which reduces the immediate need to increase auction volumes.
3. Pricing from the SMP/milkfat product stream is more favourable relative to WMP, due to higher milkfat prices. This more favourable pricing has been reflected in the small increases in the auction volumes of SMP, butter and AMF recently.

Overall, while some improvement (less than 5%) is expected, the pressure remains on farm-gate prices. Both Open Country Dairy and Westland have recently both revised their milk prices down close to our $3.95/kg MS forecast. With only five auctions to go before opening forecasts for 2016/17 will be made, it seems early predictions are more likely to open with a four in front of them as opposed to a five. This will weigh on the opening advance and farmers' cash flow for an extended period of time.

ECONOMIC OVERVIEW

LOCAL DATA

International Travel & Migration – Jan. A net inflow of 6,130 migrants was experienced. Seasonally adjusted visitor arrivals rose 2.9% m/m.

Overseas Merchandise Trade – Jan. An unadjusted surplus of $8m was recorded. In seasonally adjusted terms, the deficit narrowed to $106m.

ANZ Regional Trends – Q4. The nationwide composite grew by 1.8% q/q – the fastest quarterly growth in 12 years.

ANZ Business Outlook – February. Headline business confidence eased to a net 7% from 23%. Firms' own activity expectations fell from +34 to +26.

INTEREST RATE STRATEGY

SUMMARY

Despite considerable falls in front-end yields already, there is scope for short-term rates to rally further and for the curve to "bull steepen". We still expect US long-term interest rates to gradually drift higher, biasing local term rates higher too. However, the prospect of more RBNZ easing (we now expect more cuts than are currently priced in) points to a narrowing in geographic spreads. This will slow the rise in local long-end rates vis-à-vis the US. Swap spreads are likely to continue narrowing as credit markets re-price higher in the wake of new bank bond issuance at much wider spreads than those prevailing last year.

THEMES

- We expect 25bp cuts in June and September, taking the OCR to 2%, a new record low. This change of view shifts our strategic view of front-end rates from consolidating to looking for the recent rally to extend.
- With less than 40bps of cuts currently priced in by the end of the year, there is scope for the short end to rally further. We also expect NZ/US spreads to narrow, and the curve to continue steepening.
- Developments on the commodity price front (notably oil) continue to influence movements in equities, currencies, and rates markets. Low global yields reflect a lack of confidence that the scene will stabilise quickly. We concur.
- High outright local yields and the ongoing "hunt for yield" should keep the bias in favour of spread compression, absorbing some of the impact of rising global long-end rates.

PREFERRED STRATEGIES – INVESTORS

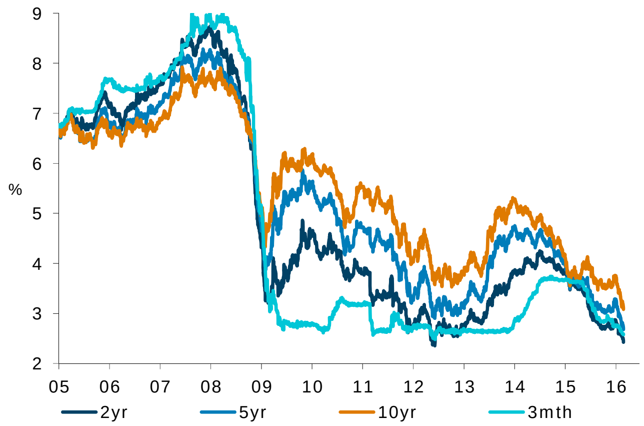
KEY VIEWS – FOR INVESTORS		
GAUGE	**DIRECTION**	**COMMENT**
Duration	Neutral/ Bullish	Short end lower, long-end rates still high in global context.
2s10s Curve	Steeper	OCR cuts coming, but long end still biased mildly higher.
Geographic 10yr spread	Narrower	Divergent policy biases argue for gradual narrowing.
Swap spreads	Neutral	Long-end spreads at risk of narrowing, given supply.

50BPS OF CUTS TO COME

Tightening financial conditions, a persistently weak outlook for inflation, and growing unease on the global front are now too significant to ignore, and flag the need for more domestic policy support. Whilst we have had a negative view of the risk profile for some time, the deterioration in the outlook since the start of the year has put us on notice. Domestic activity appears to be holding up well, but forward-looking elements foretell moderating momentum, and with inflation already very low, even modestly sub-trend growth would make the RBNZ's ability to achieve its inflation mandate a difficult task.

In some respects, local (and global) markets have anticipated this. Local rates have drifted lower across the curve, taking part in the global rally. The bellwether 2 year swap rate has declined by close to 10bps over the past week, and at around 2.42% is close to historic lows. Five and 10 year rates are hovering around record lows. However, if the OCR is cut by a further 50bps this year, there will be further downward pressure on yields. Given that short-term yields are more attuned to domestic considerations, as the market gravitates to our view of more cuts to come, we expect the short end to move lower yet, and the curve to steepen.

FIGURE 1: NZD SWAP RATES



Source: ANZ, Bloomberg

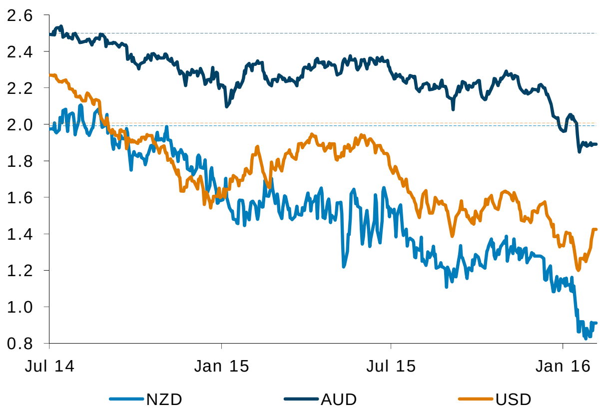
Global credit market developments are unsettling, and are partly in response to structural shifts in the environment for bank funding. Funding is considerably more expensive than it was a year ago, with recent bank issuance priced at substantially wider margins than those prevailing last year. This has also been reflected in credit default spreads for the major Australian banks, which have widened by about 50bps since the start of the year. Against this backdrop, retail interest rates (for both depositors and borrowers) look set to rise. There has also been a knock-on effect in the swap market, and we expect this to continue. Spreads are biased to narrow further as markets re-rate valuations on NZGS in comparison to what are now considerably wider margins on bank bonds and kauris. Higher spreads are another argument for RBNZ OCR cuts as an offset.

INTEREST RATE STRATEGY

Global volatility continues and is starting to take on more worrying characteristics, with markets sceptical about what central banks can do to stabilise the ship. Fed members have acknowledged recent volatility and tightening financial conditions, and have watered down tightening rhetoric. However, solid US data and rising core inflation keep the bias towards rate hikes. The ECB looks set to provide further policy easing in March, and the UK vote on the EU in June is adding to market unease. The G20 meeting committed governments to a use fiscal policy flexibly to strengthen growth, job creation and confidence, rather than via monetary policy. We saw the right nuances, but there wasn't too much actual substance.

It is not just domestic inflation that has been soft; we have also seen a trend decline in long-term inflation expectations, as measured by the spread between nominal and inflation-linked bonds (Figure 2). This is suggestive of structural change, and looks to be a global phenomenon.

FIGURE 2: BREAKEVEN INFLATION RATES



Source: ANZ, Bloomberg

New Zealand's comparatively higher local rates, sound fiscal metrics and solid outlook for economic activity have underpinned NZD support. However, the persistently high NZD is tightening domestic financial conditions, and is another factor paving the way for OCR cuts. Low global rates are likely to maintain investor appetite for yield, supporting the local market. Last week's tender of the 2033 NZGB was well supported with strong bid cover, and with the RBNZ expected to soon join the rate cut camp there is scope for further compression of local spreads to global equivalents.

PREFERRED STRATEGIES – BORROWERS

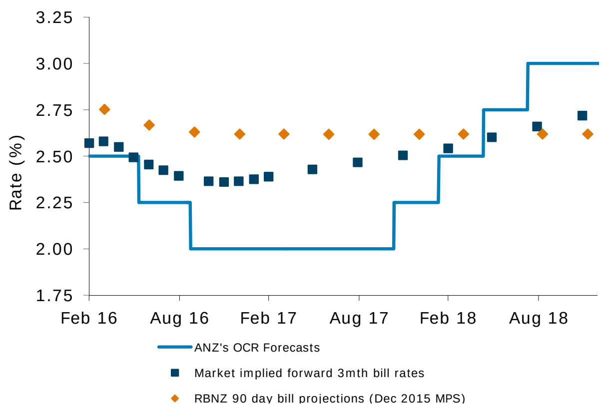
With 10-year swap rates hovering around record lows it is difficult to argue that fixing now does not offer good value, at least from an historical perspective. However, rates could move lower still, especially for tenors out to 5 years. But what really concerns us is what happens to hedge effectiveness as credit spreads widen. If wider credit spreads lead to more RBNZ easing and lower swap rates, hedges designed to protect against rising rates will become ineffective as they don't guard against what's really driving overall funding costs up – i.e. wider spreads. This – and the volatile trading environment – **has us biased towards favouring an option-based strategy when it comes to new hedging.** We note too that floating rates are also historically cheap, particularly with our expectation of 50bps of cuts by the end of the year. This makes the decision to take on more expensive term cover an even more difficult one (hence our preference for optionality).

KEY VIEWS – FOR BORROWERS		
GAUGE	**VIEW**	**COMMENT**
Hedge ratio	Majority hedged	Options preferred so as to maintain exposure to lower floating interest rates.
Value	Cheap	Low, but the catalyst for an immediate rise is absent.
Uncertainty	Elevated	The key reason for caution.

MARKET EXPECTATIONS

Price action over the past week has seen market expectations rally. Market expectations of a March OCR cut have risen to around 28% (from 25%), with 32bps of cuts priced in by August and 39bps of cuts priced in by the end of the year.[1] Our core view is for 50bps of OCR cuts this year, and for the OCR to be on hold over most of 2017. As such, there is potential for yields to rally further.

FIGURE 3: ANZ OCR FORECAST VERSUS MARKET-IMPLIED FORWARD 3MTH BILL RATES AND RBNZ 90-DAY BILL PROJECTIONS



Source: ANZ, Bloomberg

[1] From July, the new schedule for OCR decisions will be introduced, with four *MPS* and associated OCR announcements each year (in February, May, August and November) and three intervening OCR Reviews (in March, June and September).

CURRENCY STRATEGY

SUMMARY

We are turning more outright negative on the NZD. In short, its resilience in the face of growing global risks is on borrowed time now the OCR is likely headed lower. Weakening export prices and an expected rolling in the economic good news story are also strong sell signals, particularly when viewed in combination with the current NZD level. Moreover, Fed rate hikes expectations are low. Amidst still-solid jobs and inflation data, USD rebound risks are on the table.

TABLE 1: KEY VIEWS			
CROSS	**WEEK**	**MONTH**	**YEAR**
NZD/USD	↓	Too expensive	Downside risks
NZD/AUD	↔/↓	Range trading	Remain above long-run averages
NZD/EUR	↔	EUR capped	EUR capped by ECB
NZD/GBP	↔	Brexit level found	GBP resurgence
NZD/JPY	↔	BoJ in question	JPY finding a range

THEMES AND RISKS

- Tighter financial conditions flag a turn in the tenor of New Zealand's dataflow; it'll still be good, just not as consistently good. Yet the NZD looks priced for perfection.
- The NZD and swaps market / credit spreads (measures of risk appetite) have diverged. We believe the latter are more in tune with reality.
- Expectations for US data are at a low ebb and the re-pricing of US policy expectations looks nearly complete. This leaves upside USD risks.
- AUD will be a focus for markets with the RBA, Q4 GDP, and retail sales this week. We continue to expect RBA policy easing later this year.

TABLE 2: KEY UPCOMING EVENT RISK			
EVENT		**WHEN (NZDT)**	**IMPACT RISK**
EUR	EU CPI (Feb)	Mon 23:00	NZD/EUR ↓
NZD	Q4 ToT	Tue 10:45	NZD/USD ↓
CNY	PMIs	Tue 14:00	NZD/CNY ↑
AUD	RBA	Tue 16:30	NZD/AUD ↑
GBP	Markit PMI	Tue 22:30	NZD/GBP ↓
NZD	GDT auction	Wed AM	NZD ↔/↑
USD	ISM	Wed 04:00	NZD/USD ↓
NZD	QV HPI	Wed 12:00	NZD ↑
AUD	Q4 GDP	Wed 13:30	NZD/AUD ↓
USD	Beige Book	Thu 08:00	NZD/USD ↓
NZD	Q4 value of all buildings	Thu 10:45	NZD ↓
NZD	ANZ Commodity Prices	Thu 13:00	NZD
AUD	Trade Balance	Thu 13:30	NZD/AUD ↑
GBP	Markit PMI (svcs)	Thu 22:30	NZD/GBP ↑
EUR	Retail sales	Thu 23:00	NZD/EUR ↓
USD	ISM (non-mfg)	Fri 04:00	NZD/USD ↑
AUD	Retail sales	Fri 13:30	NZD/AUD ↑
USD	Payrolls	Sat 02:40	NZD/USD ↓
CNY	2016 GDP forecast	Sat	NZD ↑

EXPORTERS' STRATEGY

We believe the NZD will decline, so favour holding off for now, waiting for better levels later. We favour options if immediate cover is needed.

IMPORTERS' STRATEGY

Importers should consider hedging at current levels. We are near range edges and the TWI is looking too strong and disconnected with other markets.

DATA PULSE

NZD was well supported last week. New Zealand data remains solid, with net migration back to near records and the January trade balance recording a small surplus. However, this solid trend is well entrenched in markets' minds, leaving little upside.

It was a game of two halves for US data and the USD last week. The week started with weak Markit PMIs, declines in housing gauges, and a sharp drop in consumer confidence, but it ended with strong durable goods, an uplift in spending, a big jump in the core PCE deflator, and a positive revision to Q4 GDP.

EUR suffered as the EU PMIs slowed, January CPI confirmed a return to deflationary pressures and wider confidence measures declined.

The GBP was pounded by Brexit news, as Q4 GDP and other indicators continued the softer – albeit still solid – trend. Governor Carney said the UK needed to be prepared for negative shocks.

Australian data was weaker on balance, with the Q4 capex survey revealing soft intentions for 2016. The Q4 wage price index and construction work done releases were also below expectations.

TABLE 3: NZD VS AUD: MONTHLY GAUGES		
GAUGE	**GUIDE**	**COMMENT**
Fair value	↔	FV is above long-run averages.
Yield	↔/↓	More downside risks to NZ rates.
Commodities	↓	Iron ore stable, milk not so much.
Data	↔/↓	NZ data looks overly strong.
Techs	↔	Back to mid-range.
Sentiment	↔	Both AUD and NZD resistant to sentiment.
Other	↑↓	Volatility is high.
On balance	↔/↓	**Range trading.**

TABLE 4: NZD VS USD: MONTHLY GAUGES		
GAUGE	**GUIDE**	**COMMENT**
Fair value	↔	Closer to fair value.
Yield	↔/↓	Yield advantage to change.
Commodities	↔/↓	Dairy expected to stabilise.
Risk aversion	↔↑	Resilience to risk notable.
Data	↓	Peak optimism/pessimism?
Techs	↓	Rejection of topside says sell.
Other	↓	China remains a key downside.
On balance	↔/↓	**Downside risks.**

CURRENCY STRATEGY

TECHNICAL OUTLOOK

FIGURE 1. NZD/USD DAILY CANDLES WITH RSI & MA

NZD/USD posted an important rejection of the topside break of the wedge. Having broken up and tested toward 0.68, the swift move at the end of the week back to 0.66 suggests the next stop is testing the bottom of the wedge near 0.65. There also remains the potential for a sideways drift to complete the wedge break before falling lower to test support. Either way, the technical profile is clear: sell rallies.

FIGURE 2. NZD/AUD DAILY CANDLES WITH RSI & MA

NZD/AUD remains comfortably mid-range, with little other than positioning offering clues. Resistance is very strong in the 0.94 to 0.95 area, and we remain comfortable selling any strength in NZD/AUD, as per the longer profile we outlined last week.

TABLE 5: KEY TECHNICAL ZONES

CROSS	SUPPORT	RESISTANCE
NZD/USD	0.6480 – 0.6520 0.6330 – 0.6350	0.6780 – 0.6820 0.6940 – 0.6980
NZD/AUD	0.9080 – 0.9120	0.9480 – 0.9520
NZD/EUR	0.5800 – 0.5850	0.6280 – 0.6330
NZD/GBP	0.4630 – 0.4660	0.4930 – 0.4980
NZD/JPY	73.50 – 74.00 69.80 – 70.20	79.50 – 80.00 82.40 – 83.00

POSITIONING

USD long positions were again cut, but interestingly EUR shorts (against USD longs) remained stable. JPY longs were increased, while short GBP positions were modestly cut. NZD shorts were decreased and AUD longs increased, potentially paving the way for an NZD/AUD correction higher.

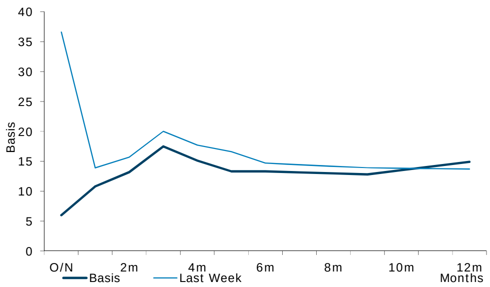
GLOBAL VIEWS

Yields are an important driver of currencies, and lately some currencies have diverged from yield differentials. The broader NZD has become divorced from local yield direction, proving resilient despite increased market expectations for OCR cuts. In part, this reflects relative yield expectations (i.e. removal of Fed hikes), but the NZD's strength amidst rising volatility and expanding credit spreads (in some cases particularly for nations with exposure to China) still looks puzzling.

This isn't overly surprising as correlations come and go in the short term, as markets focus on other factors. But over the longer term fundamental relationships with the likes of yield always re-converge. US expectations are at a low ebb, and recent data (upward revision of Q4 GDP, increased consumption and pricing pressures) suggest the US re-pricing (lower) may be over, leaving the NZD prone to reconnecting more to local factors, and global credit spreads. The combination of an OCR moving lower, weakening export prices (though dairy prices should stabilise), and a softer (albeit solid) economic story leaves the NZD prone to playing catch-up to the downside.

FORWARDS: CARRY AND BASIS

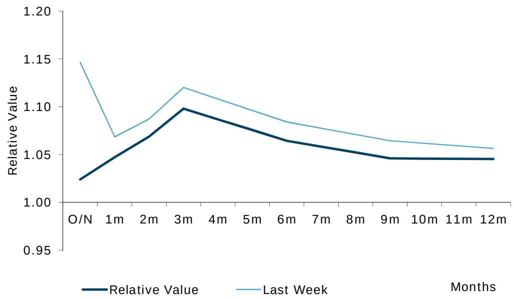
FIGURE 3. NZD/USD SHORT BASIS CURVE



Source: ANZ, Bloomberg, Reuters

The RBNZ took definitive action to ease the onshore/offshore imbalance, injecting money into the FX market. This has tightened short basis. The rally in front-end yields and contraction in short basis has seen the implied yields become less attractive. It seems for now the squeeze in short-end funding is over, possibly related to the squeeze in NZD spot.

FIGURE 4. RELATIVE ATTRACTION OF THE FWD CURVE



Source: ANZ, Bloomberg, Reuters

DATA EVENT CALENDAR

DATE	COUNTRY	DATA / EVENT	MKT.	LAST	NZ TIME
29-Feb	NZ	Building Permits MoM - Jan	--	2.3%	10:45
	AU	Inventories SA QoQ - Q4	0.1%	0.1%	13:30
	AU	Company Operating Profit QoQ - Q4	-1.8%	1.3%	13:30
	AU	Private Sector Credit MoM - Jan	0.5%	0.5%	13:30
	AU	Private Sector Credit YoY - Jan	6.5%	6.6%	13:30
	NZ	Money Supply M3 YoY - Jan	--	8.1%	15:00
	GE	Import Price Index MoM - Jan	-1.0%	-1.2%	20:00
	GE	Import Price Index YoY - Jan	-3.4%	-3.1%	20:00
	GE	Retail Sales MoM - Jan	0.3%	0.6%	20:00
	GE	Retail Sales YoY - Jan	1.8%	1.5%	20:00
	UK	Net Consumer Credit - Jan	£1.4B	£1.2B	22:30
	UK	Net Lending Sec. on Dwellings - Jan	£3.7B	£3.2B	22:30
	UK	Mortgage Approvals - Jan	74.0K	70.8K	22:30
	UK	Money Supply M4 MoM - Jan	--	-0.2%	22:30
	UK	M4 Money Supply YoY - Jan	--	0.2%	22:30
	EC	CPI Estimate YoY - Feb	0.0%	0.3%	23:00
	EC	CPI Core YoY - Feb A	0.9%	1.0%	23:00
1-Mar	US	ISM Milwaukee - Feb	50.00	50.36	03:00
	US	Chicago Purchasing Manager - Feb	52.5	55.6	03:45
	US	Pending Home Sales MoM - Jan	0.5%	0.1%	04:00
	US	Pending Home Sales NSA YoY - Jan	4.1%	3.1%	04:00
	US	Dallas Fed Manf. Activity - Feb	-30.0	-34.6	04:30
	NZ	Terms of Trade Index QoQ - Q4	0.0%	-3.7%	10:45
	AU	AiG Perf of Mfg Index - Feb	--	51.5	11:30
	AU	ANZ-RM Consumer Confidence Index - 28-Feb	--	114.3	11:30
	AU	Net Exports of GDP - Q4	0.3	1.5	13:30
	AU	BoP Current Account Balance - Q4	-20.0B	-18.1B	13:30
	AU	Building Approvals MoM - Jan	-3.0%	9.2%	13:30
	AU	Building Approvals YoY - Jan	-8.5%	-2.5%	13:30
	CH	Manufacturing PMI - Feb	49.4	49.4	14:00
	CH	Non-manufacturing PMI - Feb	--	53.5	14:00
	CH	Caixin PMI Mfg - Feb	48.4	48.4	14:45
	AU	RBA Cash Rate Target - Mar	2.00%	2.00%	16:30
	AU	Commodity Index AUD - Feb	--	71.7	18:30
	AU	Commodity Index YoY - Feb	--	-25.8%	18:30
	GE	Unemployment Change (000's) - Feb	-10K	-20K	21:55
	GE	Unemployment Claims Rate SA - Feb	6.2%	6.2%	21:55
	GE	Markit/BME Manufacturing PMI - Feb F	50.2	50.2	21:55
	EC	Markit Manufacturing PMI - Feb F	51	51	22:00
	UK	Markit PMI Manufacturing SA - Feb	52.3	52.9	22:30
	EC	Unemployment Rate - Jan	10.4%	10.4%	23:00
2-Mar	US	Markit Manufacturing PMI - Feb F	51.2	51.0	03:45
	US	IBD/TIPP Economic Optimism - Mar	47.8	47.8	04:00
	US	ISM Manufacturing - Feb	48.5	48.2	04:00
	US	ISM Prices Paid - Feb	35.0	33.5	04:00
	US	ISM New Orders - Feb	--	51.5	04:00
	US	Construction Spending MoM - Jan	0.4%	0.1%	04:00
	NZ	QV House Prices YoY - Feb	--	12.6%	12:00

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA / EVENT	MKT.	LAST	NZ TIME
2-Mar	AU	HIA New Home Sales MoM - Jan	--	6.0%	13:00
	AU	GDP SA QoQ - Q4	0.5%	0.9%	13:30
	AU	GDP YoY - Q4	2.6%	2.5%	13:30
	UK	Markit/CIPS Construction PMI - Feb	55.5	55.0	22:30
	EC	PPI MoM - Jan	-1.0%	-0.8%	23:00
	EC	PPI YoY - Jan	-2.9%	-3.0%	23:00
3-Mar	US	MBA Mortgage Applications - 26-Feb	--	-4.30%	01:00
	US	ADP Employment Change - Feb	185K	205K	02:15
	US	ISM New York - Feb	--	54.6	03:45
	US	US Federal Reserve releases Beige Book -	--	--	08:00
	NZ	Value of All Buildings SA QoQ - Q4	2.0%	0.5%	10:45
	AU	AiG Perf of Services Index - Feb	--	48.4	11:30
	NZ	ANZ Commodity Price - Feb	--	-2.3%	13:00
	AU	Trade Balance - Jan	-3200M	-3535M	13:30
	CH	Caixin PMI Services - Feb	--	52.4	14:45
	CH	Caixin PMI Composite - Feb	--	50.1	14:45
	UK	Nationwide House PX MoM - Feb	0.4%	0.3%	20:00
	UK	Nationwide House Px NSA YoY - Feb	4.9%	4.4%	20:00
	UK	Halifax House Prices MoM - Feb	0.0%	1.7%	21:30
	UK	Halifax House Price 3Mths/Year - Feb	10.4%	9.7%	21:30
	GE	Markit Services PMI - Feb F	55.1	55.1	21:55
	GE	Markit/BME Composite PMI - Feb F	53.8	53.8	21:55
	EC	Markit Services PMI - Feb F	53.0	53.0	22:00
	EC	Markit Composite PMI - Feb F	52.7	52.7	22:00
	UK	Official Reserves Changes - Feb	--	$527M	22:30
	UK	Markit/CIPS Services PMI - Feb	55.1	55.6	22:30
	UK	Markit/CIPS Composite PMI - Feb	55.7	56.1	22:30
	EC	Retail Sales MoM - Jan	0.1%	0.3%	23:00
	EC	Retail Sales YoY - Jan	1.3%	1.4%	23:00
4-Mar	US	Nonfarm Productivity - Q4 F	-3.2%	-3.0%	02:30
	US	Unit Labor Costs - Q4 F	4.7%	4.5%	02:30
	US	Initial Jobless Claims - 27-Feb	270K	272K	02:30
	US	Continuing Claims - 20-Feb	2235K	2253K	02:30
	US	Markit Services PMI - Feb F	50.0	49.8	03:45
	US	Markit Composite PMI - Feb F	--	50.1	03:45
	US	Bloomberg Consumer Comfort - 46784	--	44.2	03:45
	US	ISM Non-Manf. Composite - Feb	53.0	53.5	04:00
	US	Factory Orders - Jan	2.1%	-2.9%	04:00
	US	Durable Goods Orders - Jan F	--	4.9%	04:00
	US	Cap Goods Orders Nondef Ex Air - Jan F	--	3.9%	04:00
	AU	Retail Sales MoM - Jan	0.4%	0.0%	13:30
	GE	Markit Construction PMI - Feb	--	57.9	21:30
	GE	Markit Retail PMI - Feb	--	49.5	22:10
	EC	Markit Retail PMI - Feb	--	48.9	22:10
5-Mar	US	Trade Balance - Jan	-$43.8B	-$43.4B	02:30
	US	Change in Nonfarm Payrolls - Feb	193K	151K	02:30

Key: AU: Australia, EC: Eurozone, GE: Germany, JN: Japan, NZ: New Zealand, UK: United Kingdom, US: United States, CH: China.
Source: Dow Jones, Reuters, Bloomberg, ANZ Bank New Zealand Limited. All $ values in local currency.
Note: All surveys are preliminary and subject to change.

LOCAL DATA WATCH

Domestic economic momentum is reasonable at present. However, the outlook is darkening and with inflation already low, we now believe the RBNZ will cut the OCR twice more this year.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Mon 29 Feb (3:00pm)	RBNZ Credit Aggregates – Jan	Topping out	Credit growth remains strong relative to incomes, but we suspect it is close to a peak.
Tue 1 Mar (10:45am)	Overseas Trade Indexes – Q4	Lower terms of trade	While lower oil prices are providing some offset, weaker export prices should see the terms of trade fall again.
Tue 1 Mar (12:00pm)	QV House Prices – Feb	Peaked	Policy changes and affordability constraints have cooled the Auckland market, and with it the nationwide figures.
Wed 2 Mar (early am)	GlobalDairyTrade Auction	Stabilisation at low levels	A small rise is possible, but the fundamental backdrop is not yet conducive to a meaningful recovery in prices.
Thu 3 Mar (10:45am)	Building Work Put in Place – Q4	Decent	The construction sector is performing solidly, with quarterly gains expected in both residential and non-residential work.
Thu 3 Mar (1:00pm)	ANZ Commodity Price Index – Feb	--	--
Tue 8 Mar (10:00am)	ANZ Truckometer – Feb	--	--
Tue 8 Mar (10:00am)	Economic Survey of Manufacturing – Q4	Solid	Primary volumes may contract. However, core manufacturing production should record some modest growth.
Tue 8 Mar (1:00pm)	ANZ Monthly Inflation Gauge – Feb	--	--
Wed 9 Mar (10:45am)	Electronic Card Transactions – Feb	Respectable	Lower petrol prices may weigh on the headline figure. However, a number of factors should keep spending growth respectable.
Thu 10 Mar (9:00am)	RBNZ *Monetary Policy Statement*	On hold (for now)	Risks to the outlook are clear. While the domestic growth backdrop is reasonable, storm clouds from the global backdrop are evident.
Fri 11 Mar (10:30am)	BNZ-Business NZ PMI – Feb	Domestic support	Despite dairy challenges and global turmoil, the sector is benefiting from a strong domestic economy.
Fri 11 Mar (10:45am)	Food Price Index – Feb	Reversal	A partial reversal of January's lift is expected.
Mon 14 Mar (10:30am)	BNZ-Business NZ PSI – Feb	Holding firm	The index has eased off highs, perhaps due to softer housing market activity. But we are expecting it to hold up well.
Wed 16 Mar (early am)	GlobalDairyTrade Auction	Stabilisation at low levels	The fundamental backdrop is not conducive to a meaningful recovery in prices.
Wed 16 Mar (10:45am)	Balance of Payments – Q4	Holding	While a larger seasonally adjusted deficit is likely, the annual current account deficit should hold around 3.2% of GDP.
Thu 17 Mar (10:45am)	GDP – Q4	0.7% q/q	We have pencilled in growth of 0.7% q/q, supported by construction and services sector activity.
Fri 18 Mar (10:00am)	ANZ Job Ads – Feb	--	--
Fri 18 Mar (1:00pm)	ANZ-Roy Morgan Consumer Confidence – Mar	--	--
Mon 21 Mar (10:45am)	International Travel & Migration – Feb	Still strong	Current themes are expected to continue. It is hard to see much of a change until the domestic economic picture worsens.
Thu 24 Mar (10:45am)	Overseas Merchandise Trade – Feb	Deteriorating	Things have held up well recently, but we expect weaker export prices to dominant and result in a deteriorating trade picture overall.
On balance		**Data watch**	**Reasonable momentum at present, but with risks. Inflation remains low.**

KEY FORECASTS AND RATES

	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17
GDP (% qoq)	0.9	**0.7**	**0.5**	**0.6**	**0.6**	**0.6**	**0.7**	**0.7**	**0.6**	**0.6**
GDP (% yoy)	2.3	**2.1**	**2.4**	**2.7**	**2.4**	**2.3**	**2.5**	**2.6**	**2.6**	**2.7**
CPI (% qoq)	0.3	-0.5	**0.0**	**0.4**	**0.4**	**0.0**	**0.6**	**0.4**	**0.7**	**0.3**
CPI (% yoy)	0.4	0.1	**0.3**	**0.2**	**0.3**	**0.8**	**1.4**	**1.4**	**1.7**	**1.9**
Employment (% qoq)	-0.5	0.9	**0.6**	**0.5**	**0.5**	**0.5**	**0.4**	**0.4**	**0.4**	**0.4**
Employment (% yoy)	1.4	1.3	**1.2**	**1.6**	**2.6**	**2.1**	**1.9**	**1.8**	**1.7**	**1.7**
Unemployment Rate (% sa)	6.0	5.3	**5.8**	**5.7**	**5.6**	**5.4**	**5.3**	**5.3**	**5.2**	**5.1**
Current Account (% GDP)	-3.2	**-3.1**	**-3.5**	**-4.0**	**-4.9**	**-5.9**	**-6.6**	**-7.0**	**-6.8**	**-6.2**
Terms of Trade (% qoq)	-3.7	**-2.9**	**-4.1**	**-6.9**	**-6.1**	**-4.2**	**-0.2**	**3.0**	**4.9**	**3.8**
Terms of Trade (% yoy)	-3.4	**-3.9**	**-9.0**	**-16.5**	**-18.6**	**-19.7**	**-16.5**	**-7.6**	**3.2**	**11.9**

	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16
Retail ECT (% mom)	1.3	0.5	0.4	0.5	0.9	0.1	0.8	0.1	0.3	--
Retail ECT (% yoy)	3.2	5.0	5.6	4.2	6.1	5.8	4.6	6.6	5.2	--
Credit Card Billings (% mom)	1.8	0.3	1.7	1.5	-1.9	1.7	0.7	-0.8	2.3	--
Credit Card Billings (% yoy)	7.2	6.7	9.7	10.4	7.3	7.8	8.5	7.4	8.9	--
Car Registrations (% mom)	-0.4	5.2	0.6	-2.3	0.1	-1.4	-2.1	2.8	-3.1	--
Car Registrations (% yoy)	6.8	11.2	10.7	7.8	5.0	3.8	1.3	2.4	-1.1	--
Building Consents (% mom)	1.0	-3.6	21.7	-6.9	-5.7	5.1	2.4	2.3	--	--
Building Consents (% yoy)	6.6	-3.8	21.9	12.0	17.1	14.4	8.0	17.3	--	--
REINZ House Price Index (% yoy)	11.8	14.8	14.9	17.3	20.1	14.1	12.5	12.6	10.7	--
Household Lending Growth (% mom)	0.6	0.6	0.7	0.6	0.7	0.7	0.6	0.6	--	--
Household Lending Growth (% yoy)	5.5	5.6	6.0	6.3	6.7	7.0	7.2	7.4	--	--
ANZ Roy Morgan Consumer Conf.	123.9	119.9	113.9	109.8	110.8	114.9	122.7	118.7	121.4	119.7
ANZ Business Confidence	15.7	-2.3	-15.3	-29.1	-18.9	10.5	14.6	23.0	--	7.1
ANZ Own Activity Outlook	32.6	23.6	19.0	12.2	16.7	23.7	32.0	34.4	--	25.5
Trade Balance ($m)	367	-182	-730	-1090	-1140	-905	-796	-38	8	--
Trade Bal ($m ann)	50976	51371	51643	52446	52287	52101	52648	52511	52772	--
ANZ World Commodity Price Index (% mom)	-4.8	-3.1	-5.5	-5.3	5.6	7.1	-5.6	-1.8	-2.3	--
ANZ World Comm. Price Index (% yoy)	-18.0	-19.7	-22.1	-23.6	-18.2	-11.6	-15.3	-12.9	-14.7	--
Net Migration (sa)	5120	4940	5740	5500	5590	6150	6230	5560	6130	--
Net Migration (ann)	57822	58259	59639	60290	61234	62477	63659	64930	65911	--
ANZ Heavy Traffic Index (% mom)	-1.0	1.8	-0.2	-0.2	1.8	1.0	0.3	2.8	-4.3	--
ANZ Light Traffic Index (% mom)	-0.7	0.9	-0.3	-0.5	2.7	-1.2	0.2	1.0	-1.4	--

Figures in bold are forecasts. mom: Month-on-Month qoq: Quarter-on-Quarter yoy: Year-on-Year

KEY FORECASTS AND RATES

	ACTUAL			FORECAST (END MONTH)						
FX RATES	Dec-15	Jan-16	Today	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17
NZD/USD	0.683	0.648	0.664	0.63	0.61	0.59	0.59	0.60	0.61	0.63
NZD/AUD	0.938	0.915	0.931	0.94	0.94	0.92	0.92	0.92	0.92	0.93
NZD/EUR	0.629	0.599	0.608	0.59	0.58	0.55	0.54	0.54	0.53	0.53
NZD/JPY	82.12	78.55	75.65	69.3	64.1	62.0	62.0	60.0	61.0	63.0
NZD/GBP	0.464	0.455	0.479	0.46	0.45	0.41	0.39	0.39	0.39	0.39
NZ$ TWI	73.6	70.5	72.7	68.8	67.0	64.2	63.7	63.7	64.1	64.9
INTEREST RATES	Dec-15	Jan-16	Today	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17
NZ OCR	2.50	2.50	2.50	2.50	2.25	2.00	2.00	2.00	2.00	2.00
NZ 90 day bill	2.75	2.70	2.57	2.80	2.50	2.20	2.20	2.20	2.20	2.30
NZ 10-yr bond	3.57	3.22	2.97	3.80	3.80	3.80	3.90	3.90	3.90	3.90
US Fed funds	0.50	0.50	0.50	0.50	0.75	1.00	1.25	1.25	1.50	1.75
US 3-mth	0.61	0.61	0.64	0.83	1.08	1.33	1.40	1.50	1.65	1.85
AU Cash Rate	2.00	2.00	2.00	2.00	1.75	1.50	1.50	1.50	1.50	1.50
AU 3-mth	2.38	2.29	2.29	2.20	2.30	2.40	2.40	2.40	2.40	2.40

	26 Jan	22 Feb	23 Feb	24 Feb	25 Feb	26 Feb
Official Cash Rate	2.50	2.50	2.50	2.50	2.50	2.50
90 day bank bill	2.72	2.59	2.60	2.58	2.58	2.57
NZGB 12/17	2.50	2.43	2.40	2.34	2.32	2.31
NZGB 03/19	2.62	2.54	2.51	2.46	2.43	2.42
NZGB 04/23	3.25	3.07	3.05	3.01	2.98	2.97
NZGB 04/27	3.62	3.40	3.38	3.32	3.29	3.28
2 year swap	2.62	2.50	2.49	2.45	2.45	2.45
5 year swap	2.88	2.66	2.64	2.60	2.58	2.57
RBNZ TWI	72.0	72.28	72.71	72.00	72.39	73.42
NZD/USD	0.6525	0.67	0.67	0.66	0.67	0.68
NZD/AUD	0.93	0.93	0.93	0.92	0.93	0.93
NZD/JPY	76.85	75.15	75.12	73.95	74.70	76.31
NZD/GBP	0.46	0.47	0.47	0.47	0.48	0.48
NZD/EUR	0.60	0.60	0.61	0.60	0.60	0.61
AUD/USD	0.70	0.72	0.72	0.72	0.72	0.72
EUR/USD	1.08	1.11	1.10	1.10	1.10	1.11
USD/JPY	117.78	112.98	112.16	111.82	112.33	112.82
GBP/USD	1.42	1.43	1.41	1.40	1.39	1.40
Oil (US$/bbl)	32.07	29.59	31.37	31.84	30.35	31.40
Gold (US$/oz)	1101.85	1217.48	1221.20	1229.60	1233.65	1236.10
Electricity (Haywards)	8.26	6.77	6.11	5.56	5.77	6.13
Baltic Dry Freight Index	345	316	318	322	325	327
Milk futures (USD)	33	33	34	34	35	35

IMPORTANT NOTICE

The distribution of this document or streaming of this video broadcast (as applicable, "publication") may be restricted by law in certain jurisdictions. Persons who receive this publication must inform themselves about and observe all relevant restrictions.

1. Disclaimer for all jurisdictions, where content is authored by ANZ Research:

Except if otherwise specified in section 2 below, this publication is issued and distributed in your country/region by Australia and New Zealand Banking Group Limited (ABN 11 005 357 522) ("ANZ"), on the basis that it is only for the information of the specified recipient or permitted user of the relevant website (collectively, "recipient"). This publication may not be reproduced, distributed or published by any recipient for any purpose. It is general information and has been prepared without taking into account the objectives, financial situation or needs of any person. Nothing in this publication is intended to be an offer to sell, or a solicitation of an offer to buy, any product, instrument or investment, to effect any transaction or to conclude any legal act of any kind. If, despite the foregoing, any services or products referred to in this publication are deemed to be offered in the jurisdiction in which this publication is received or accessed, no such service or product is intended for nor available to persons resident in that jurisdiction if it would be contradictory to local law or regulation. Such local laws, regulations and other limitations always apply with non-exclusive jurisdiction of local courts. Certain financial products may be subject to mandatory clearing, regulatory reporting and/or other related obligations. These obligations may vary by jurisdiction and be subject to frequent amendment. Before making an investment decision, recipients should seek independent financial, legal, tax and other relevant advice having regard to their particular circumstances.

The views and recommendations expressed in this publication are the author's. They are based on information known by the author and on sources which the author believes to be reliable, but may involve material elements of subjective judgement and analysis. Unless specifically stated otherwise: they are current on the date of this publication and are subject to change without notice; and, all price information is indicative only. Any of the views and recommendations which comprise estimates, forecasts or other projections, are subject to significant uncertainties and contingencies that cannot reasonably be anticipated. On this basis, such views and recommendations may not always be achieved or prove to be correct. Indications of past performance in this publication will not necessarily be repeated in the future. No representation is being made that any investment will or is likely to achieve profits or losses similar to those achieved in the past, or that significant losses will be avoided. Additionally, this publication may contain 'forward looking statements'. Actual events or results or actual performance may differ materially from those reflected or contemplated in such forward looking statements. All investments entail a risk and may result in both profits and losses. Foreign currency rates of exchange may adversely affect the value, price or income of any products or services described in this publication. The products and services described in this publication are not suitable for all investors, and transacting in these products or services may be considered risky. ANZ and its related bodies corporate and affiliates, and the officers, employees, contractors and agents of each of them (including the author) ("Affiliates"), do not make any representation as to the accuracy, completeness or currency of the views or recommendations expressed in this publication. Neither ANZ nor its Affiliates accept any responsibility to inform you of any matter that subsequently comes to their notice, which may affect the accuracy, completeness or currency of the information in this publication.

Except as required by law, and only to the extent so required: neither ANZ nor its Affiliates warrant or guarantee the performance of any of the products or services described in this publication or any return on any associated investment; and, ANZ and its Affiliates expressly disclaim any responsibility and shall not be liable for any loss, damage, claim, liability, proceedings, cost or expense ("Liability") arising directly or indirectly and whether in tort (including negligence), contract, equity or otherwise out of or in connection with this publication.

If this publication has been distributed by electronic transmission, such as e-mail, then such transmission cannot be guaranteed to be secure or error-free as information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete, or contain viruses. ANZ and its Affiliates do not accept any Liability as a result of electronic transmission of this publication.

ANZ and its Affiliates may have an interest in the subject matter of this publication as follows:

- They may receive fees from customers for dealing in the products or services described in this publication, and their staff and introducers of business may share in such fees or receive a bonus that may be influenced by total sales.
- They or their customers may have or have had interests or long or short positions in the products or services described in this publication, and may at any time make purchases and/or sales in them as principal or agent.
- They may act or have acted as market-maker in products described in this publication.

ANZ and its Affiliates may rely on information barriers and other arrangements to control the flow of information contained in one or more business areas within ANZ or within its Affiliates into other business areas of ANZ or of its Affiliates.

Please contact your ANZ point of contact with any questions about this publication including for further information on these disclosures of interest.

2. Country/region specific information:

Australia. This publication is distributed in Australia by ANZ. ANZ holds an Australian Financial Services licence no. 234527. A copy of ANZ's Financial Services Guide is available at http://www.anz.com/documents/AU/aboutANZ/FinancialServicesGuide.pdf and is available upon request from your ANZ point of contact. If trading strategies or recommendations are included in this publication, they are solely for the information of 'wholesale clients' (as defined in section 761G of the Corporations Act 2001 *Cth*). Persons who receive this publication must inform themselves about and observe all relevant restrictions.

Brazil. This publication is distributed in Brazil by ANZ on a cross border basis and only following request by the recipient. No securities are being offered or sold in Brazil under this publication, and no securities have been and will not be registered with the Securities Commission – CVM.

Brunei. Japan. Kuwait. Malaysia. Switzerland. Taiwan. This publication is distributed in each of Brunei, Japan, Kuwait, Malaysia, Switzerland and Taiwan by ANZ on a cross-border basis.

Cambodia. APS222 Disclosure. The recipient acknowledges that although ANZ Royal Bank (Cambodia) Ltd. is a subsidiary of ANZ, it is a separate entity to ANZ and the obligations of ANZ Royal Bank (Cambodia) Ltd. do not constitute deposits or other liabilities of ANZ and ANZ is not required to meet the obligations of ANZ Royal Bank (Cambodia) Ltd.

European Economic Area ("EEA"): United Kingdom. ANZ in the United Kingdom is authorised by the Prudential Regulation Authority ("PRA"). Subject to regulation by the Financial Conduct Authority ("FCA") and limited regulation by the PRA. Details about the extent of our regulation by the PRA are available from us on request. This publication is distributed in the United Kingdom by ANZ solely for the information of persons who would come within the FCA definition of "eligible counterparty" or "professional client". It is not intended for and must not be distributed to any person who would come within the FCA definition of "retail client". Nothing here excludes or restricts any duty or liability to a customer which ANZ may have under the UK Financial Services and Markets Act 2000 or under the regulatory system as defined in the Rules of the PRA and the FCA. **Germany.** This publication is distributed in Germany by the Frankfurt Branch of ANZ solely for the information of its clients**. Other EEA countries.** This publication is distributed in the EEA by ANZ Bank (Europe) Limited ("ANZBEL") which is authorised by the PRA and regulated by the FCA and the PRA in the United Kingdom, to persons who would come within the FCA definition of "eligible counterparty" or "professional client" in other countries in the EEA. This publication is distributed in those countries solely for the information of such persons upon their request. It is not intended for, and must not be distributed to, any person in those countries who would come within the FCA definition of "retail client".

Fiji. For Fiji regulatory purposes, this publication and any views and recommendations are not to be deemed as investment advice. Fiji investors must seek licensed professional advice should they wish to make any investment in relation to this publication.

Hong Kong. This publication is distributed in Hong Kong by the Hong Kong branch of ANZ, which is registered at the Hong Kong Monetary Authority to conduct Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities. The contents of this publication have not been reviewed by any regulatory authority in Hong Kong. If in doubt about the contents of this publication, you should obtain independent professional advice.

IMPORTANT NOTICE

India. This publication is distributed in India by ANZ on a cross-border basis. If this publication is received in India, only you (the specified recipient) may print it provided that before doing so, you specify on it your name and place of printing. Further copying or duplication of this publication is strictly prohibited.

Myanmar. This publication is intended to be of a general nature as part of customer service and marketing activities provided by ANZ in the course of implementing its functions as a licensed bank. This publication does not take into account your financial situation or goals and is not Securities Investment Advice (as that term is defined in the Myanmar Securities Transaction Law 2013). The contents of this publication have not been reviewed by any regulatory authority in Myanmar. If in doubt about the contents of this publication, you should obtain independent professional advice.

New Zealand. This publication is intended to be of a general nature, does not take into account your financial situation or goals, and is not a personalised adviser service under the Financial Advisers Act 2008.

Oman. This publication has been prepared by ANZ. ANZ neither has a registered business presence nor a representative office in Oman and does not undertake banking business or provide financial services in Oman. Consequently ANZ is not regulated by either the Central Bank of Oman or Oman's Capital Market Authority. The information contained in this publication is for discussion purposes only and neither constitutes an offer of securities in Oman as contemplated by the Commercial Companies Law of Oman (Royal Decree 4/74) or the Capital Market Law of Oman (Royal Decree 80/98), nor does it constitute an offer to sell, or the solicitation of any offer to buy non-Omani securities in Oman as contemplated by Article 139 of the Executive Regulations to the Capital Market Law (issued vide CMA Decision 1/2009). ANZ does not solicit business in Oman and the only circumstances in which ANZ sends information or material describing financial products or financial services to recipients in Oman, is where such information or material has been requested from ANZ and by receiving this publication, the person or entity to whom it has been dispatched by ANZ understands, acknowledges and agrees that this publication has not been approved by the CBO, the CMA or any other regulatory body or authority in Oman. ANZ does not market, offer, sell or distribute any financial or investment products or services in Oman and no subscription to any securities, products or financial services may or will be consummated within Oman. Nothing contained in this publication is intended to constitute Omani investment, legal, tax, accounting or other professional advice.

People's Republic of China ("PRC"). Recipients must comply with all applicable laws and regulations of PRC, including any prohibitions on speculative transactions and CNY/CNH arbitrage trading. If and when the material accompanying this document is distributed by Australia and New Zealand Banking Group Limited (ABN 11 005 357 522) ("ANZ") or an affiliate (other than Australia and New Zealand Bank (China) Company Limited ("ANZ C")), the following statement and the text below is applicable: No action has been taken by ANZ or any affiliate which would permit a public offering of any products or services of such an entity or distribution or re-distribution of this document in the PRC. Accordingly, the products and services of such entities are not being offered or sold within the PRC by means of this document or any other document. This document may not be distributed, re-distributed or published in the PRC, except under circumstances that will result in compliance with any applicable laws and regulations. If and when the material accompanying this document relates to the products and/or services of ANZ C, the following statement and the text below is applicable: This document is distributed by ANZ C in the Mainland of the PRC.

Qatar. This publication has not been, and will not be lodged or registered with, or reviewed or approved by, the Qatar Central Bank ("QCB"), the Qatar Financial Centre ("QFC") Authority, QFC Regulatory Authority or any other authority in the State of Qatar ("Qatar"); or authorised or licensed for distribution in Qatar; and the information contained in this publication does not, and is not intended to, constitute a public offer or other invitation in respect of securities in Qatar or the QFC. The financial products or services described in this publication have not been, and will not be registered with the QCB, QFC Authority, QFC Regulatory Authority or any other governmental authority in Qatar; or authorised or licensed for offering, marketing, issue or sale, directly or indirectly, in Qatar. Accordingly, the financial products or services described in this publication are not being, and will not be, offered, issued or sold in Qatar, and this publication is not being, and will not be, distributed in Qatar. The offering, marketing, issue and sale of the financial products or services described in this publication and distribution of this publication is being made in, and is subject to the laws, regulations and rules of, jurisdictions outside of Qatar and the QFC. Recipients of this publication must abide by this restriction and not distribute this publication in breach of this restriction. This publication is being sent/issued to a limited number of institutional and/or sophisticated investors (i) upon their request and confirmation that they understand the statements above; and (ii) on the condition that it will not be provided to any person other than the original recipient, and is not for general circulation and may not be reproduced or used for any other purpose.

Singapore. This publication is distributed in Singapore by the Singapore branch of ANZ solely for the information of "accredited investors", "expert investors" or (as the case may be) "institutional investors" (each term as defined in the Securities and Futures Act Cap. 289 of Singapore). ANZ is licensed in Singapore under the Banking Act Cap. 19 of Singapore and is exempted from holding a financial adviser's licence under Section 23(1)(a) of the Financial Advisers Act Cap. 100 of Singapore. In respect of any matters arising from, or in connection with the distribution of this publication in Singapore, contact your ANZ point of contact.

United Arab Emirates. This publication is distributed in the United Arab Emirates ("UAE") or the Dubai International Financial Centre (as applicable) by ANZ. This publication: does not, and is not intended to constitute an offer of securities anywhere in the UAE; does not constitute, and is not intended to constitute the carrying on or engagement in banking, financial and/or investment consultation business in the UAE under the rules and regulations made by the Central Bank of the United Arab Emirates, the Emirates Securities and Commodities Authority or the United Arab Emirates Ministry of Economy; does not, and is not intended to constitute an offer of securities within the meaning of the Dubai International Financial Centre Markets Law No. 12 of 2004; and, does not constitute, and is not intended to constitute, a financial promotion, as defined under the Dubai International Financial Centre Regulatory Law No. 1 of 200. ANZ DIFC Branch is regulated by the Dubai Financial Services Authority ("DFSA"). The financial products or services described in this publication are only available to persons who qualify as "Professional Clients" or "Market Counterparty" in accordance with the provisions of the DFSA rules. In addition, ANZ has a representative office ("ANZ Representative Office") in Abu Dhabi regulated by the Central Bank of the United Arab Emirates. ANZ Representative Office is not permitted by the Central Bank of the United Arab Emirates to provide any banking services to clients in the UAE.

United States. If and when this publication is received by any person in the United States or a "U.S. person" (as defined in Regulation S under the US Securities Act of 1933, as amended) ("US Person") or any person acting for the account or benefit of a US Person, it is noted that ANZ Securities, Inc. ("ANZ S") is a member of FINRA (www.finra.org) and registered with the SEC. ANZ S' address is 277 Park Avenue, 31st Floor, New York, NY 10172, USA (Tel: +1 212 801 9160 Fax: +1 212 801 9163). Except where this is a FX-related publication, this publication is distributed in the United States by ANZ S (a wholly owned subsidiary of ANZ), which accepts responsibility for its content. Information on any securities referred to in this publication may be obtained from ANZ S upon request. Any US Person receiving this publication and wishing to effect transactions in any securities referred to in this publication must contact ANZ S, not its affiliates. Where this is an FX-related publication, it is distributed in the United States by ANZ's New York Branch, which is also located at 277 Park Avenue, 31st Floor, New York, NY 10172, USA (Tel: +1 212 801 9160 Fax: +1 212 801 9163). Commodity-related products are not insured by any U.S. governmental agency, and are not guaranteed by ANZ or any of its affiliates. Transacting in these products may involve substantial risks and could result in a significant loss. You should carefully consider whether transacting in commodity-related products is suitable for you in light of your financial condition and investment objectives. ANZ S is authorised as a broker-dealer only for US Persons who are institutions, not for US Persons who are individuals. If you have registered to use this website or have otherwise received this publication and are a US Person who is an individual: to avoid loss, you should cease to use this website by unsubscribing or should notify the sender and you should not act on the contents of this publication in any way.

Vietnam. This publication is distributed in Vietnam by ANZ or ANZ Bank (Vietnam) Limited, a subsidiary of ANZ. Please note that the contents of this publication have not been reviewed by any regulatory authority in Vietnam. If you are in any doubt about any of the contents of this publication, you should obtain independent professional advice.

This document has been prepared by ANZ Bank New Zealand Limited, Level 10, 171 Featherston Street, Wellington 6011, New Zealand, Ph 64-4-802 2212, e-mail nzeconomics@anz.com, http://www.anz.co.nz